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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

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2006 MAY 16 P 3:47

AZ CORP COMMISSION
DOCUMENT CONTROLIN THE MATTER OF THE JOINT
APPLICATION OF

COMTEL TELECOM ASSETS LP

AND

VARTEC TELECOM, INC., EXCEL
 TELECOMMUNICATIONS, INC., AND
 VARTEC SOLUTIONS, INC.

FOR APPROVAL OF A TRANSFER OF
ASSETS

DOCKET NO. T-20423A-05-0677
 DOCKET NO. T-03401A-05-0677
 DOCKET NO. T-02584A-05-0677
 DOCKET NO. T-03188A-05-0677

SUPPLEMENT TO JOINT
 APPLICATION FOR APPROVAL
 OF A TRANSFER OF ASSETS

On September 25, 2005, Comtel Telcom Assets LP ("Comtel"), VarTec Telecom, Inc. ("VarTec Telecom"), Excel Telecommunications, Inc. ("Excel") and VarTec Solutions, Inc. ("VarTec Solutions") (VarTec Telecom, Excel and VarTec Solutions are referred to collectively as the "VarTec Companies", and the VarTec Companies and Comtel are referred to collectively as the "Applicants") filed their joint application for consent to transfer assets (the "Application") with the Arizona Corporation Commission ("Commission"). In the Application, the Applicants requested that the Commission (i) approve Comtel's acquisition of certain assets of the VarTec Companies; and (ii) grant Comtel a certificate of convenience and necessity ("CC&N") to provide competitive resold interexchange services and competitive resold and facilities-based local exchange and exchange access services within Arizona. Upon completion of the transaction, the VarTec Companies will no longer provide telecommunications services and will relinquish their

1 respective CC&Ns, and Comtel will step into the shoes of the VarTec Companies and provide
2 telecommunications services to the current customers of the VarTec Companies.

3 The purpose of this supplement to the Application is to (i) provide additional information
4 that the Commission may need in order to grant the requested CC&N to Comtel; and (ii) clarify
5 that the VarTec Companies own no assets in Arizona, and that the effect of the transaction
6 between the VarTec Companies and Comtel is to transfer the customers of the VarTec Companies
7 in Arizona to Comtel.
8

9 **I. SUPPLEMENTAL INFORMATION FOR COMTEL'S CC&N APPLICATION**

10 In addition to the information already provided in the Application, the Applicants provide
11 the following supplemental information:

12 1. Comtel requests a CC&N to provide competitive resold local exchange and access
13 services, competitive facilities-based local exchange and access services, and competitive resold
14 interexchange services.
15

16 2. Comtel's e-mail address for regulatory matters is regulatoryaffairs@vartec.net. Upon
17 closing of the transaction, Comtel anticipates utilizing the websites of the VarTec Companies:
18 www.vartec.net, www.excel.com, www.vartecsolutions.net.

19 3. In addition to its own name, Comtel will do business in Arizona under the trade names
20 VarTec Telecom, VarTec Solutions, Excel Telecommunications and Clear Choice
21 Communications.
22

23 4. The management and complaint contact for Comtel is:

24 Becky Gipson
25 Director, Regulatory Affairs
26 2440 Marsh Lane
27 Carrollton, Texas 75006
28 Phone: (972) 478-3309
Fax: (972) 478-3310
bgipson@vartec.net

5. The attorneys for the Applicants are:

Jeffrey W. Crockett, Esq.
Marcie Montgomery, Esq.
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400 East Van Buren Street
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6. Comtel is a limited partnership organized under the laws of the State of Texas. Certificates of good standing are not issued for limited partnerships. However, copies of the formation documents for Comtel were submitted as Exhibit "A" to the Application.

7. In the Application filed September 23, 2005, the Applicants provided an organizational chart for Comtel which included the percentages of ownership. However, on January 17, 2006, Comtel entered into an agreement whereby certain members of Comtel's management team were issued minority, non-controlling, voting interests in Comtel and in Comtel's general partner, Comtel Assets Inc. (through investment trusts and limited liability companies owned and controlled by such management and their families). The nine entities holding management's interests will collectively hold a 9.06% voting interest in Comtel Assets Inc. (with each entity holding voting interests ranging from 0.14% to 4.08%) and a 8.97% interest in Comtel (with each entity holding voting interest ranging from 0.13% to 4.04%). A modified organizational chart showing the management's voting interests in Comtel and Comtel Assets Inc. is attached hereto as Exhibit "A."

8. Comtel will use the same tariffs of VarTec Telecom, VarTec Solutions and Excel that are on file with the Commission today. Copies of the tariffs of each of the VarTec Companies are available on the Commission's web site. Upon approval of its request for a CC&N, Comtel will

1 submit revised tariffs which identify Comtel as the certificated service provider operating under
2 trade names VarTec Telecom, VarTec Solutions, Excel Telecommunications and Clear Choice
3 Communications.

4 9. Comtel requests a CC&N to serve statewide in Arizona.

5 10. None of Comtel's officers, directors, partners or managers has been or is currently
6 involved in any formal or informal complaint proceedings pending before any state or federal
7 regulatory commission, administrative agency or law enforcement agency.

8 11. None of Comtel's officers, directors, partners or managers has been or is currently
9 involved in any civil or criminal investigation, or had judgments entered in any civil matter,
10 judgments levied by any administrative or regulatory agency, or has been convicted of any
11 criminal acts within the last ten years.

12 12. Comtel's customers will be able to access alternative toll service providers or resellers via
13 1+101XXXX access.

14 13. The existing performance bonds of the VarTec Companies will be transferred to Comtel
15 upon closing of the transaction. If the amount of the performance bonds transferred to Comtel
16 exceeds \$135,000 (the combined bond amount required by the Commission for (i) resold
17 interexchange service (\$10,000); (ii) resold local exchange service (\$25,000); and (iii) facilities-
18 based local exchange service (\$100,000)), then the VarTec Companies and Comtel request that
19 the Commission authorize the cancellation or relinquishment of any such excess performance
20 bond.

21 14. Comtel is in the process of publishing notice of the Application in the statewide edition of
22 the Arizona Republic. Comtel will file with the Commission's Docket Control a copy of the
23 affidavit of publication upon receipt.

1 15. Upon close of the transaction, Comtel will own one or more switches located outside of
2 Arizona that will be used to provide interexchange services. Comtel will not own a switch in
3 Arizona to provide local exchange services. Comtel plans to utilize Qwest Corporation as the
4 underlying provider in the provision of Comtel's local exchange services in Arizona. In addition,
5 Comtel plans to utilize other carriers including Qwest Corporation, Citizens Utilities Rural
6 Company, Inc. d/b/a Frontier Citizens Utilities Rural, and Citizens Telecommunications
7 Company of the White Mountains, for intrastate transport of interexchange calls within Arizona.
8

9 16. Comtel has sought authority to provide local exchange services in the District of
10 Columbia and all states except Alaska and Hawaii. Comtel has sought authority to provide
11 interexchange service in all fifty states and the District of Columbia. Comtel has not had any
12 application denied in any state where Comtel has requested authority to provide
13 telecommunications services. Comtel does not currently provide telecommunications services in
14 any state or the District of Columbia.
15

16 17. Comtel has two telecommunications affiliates: Comtel Virginia LLC, a wholly-owned
17 subsidiary of Comtel that operates only in Virginia on an intrastate basis, and Mercantel, an
18 affiliate of Comtel by way of common ownership through parent companies that provides
19 termination services but no intrastate services. To date, neither of Comtel's affiliates provide
20 intrastate services in Arizona.
21

22 18. Comtel was formed in July 2005 and operations have not commenced. Consequently,
23 Comtel has only partial-year financial statements for 2005. The partial financial statements are
24 attached hereto as Exhibit "B." Comtel will not be relying on the financial resources of its
25 general or limited partners.
26

27 19. Upon consummation of the transaction, Comtel will assume the existing operations of the
28 VarTec Companies. The annual revenues, operating expenses and net book values for the VarTec

1 Companies in recent years can be found in the annual reports filed with the Utilities Division.
2 Comtel has not prepared specific projections regarding expected revenues, operating expenses
3 and net book value for the Arizona jurisdiction. However, the financial information previously
4 submitted by the VarTec Companies in their annual reports provides relevant guidance regarding
5 the anticipated revenues, operating expenses and net book value for Comtel for the first twelve
6 months following certification.
7

8 20. Comtel does not have a resale agreement in operation at this time.

9 21. Comtel is not presently selling facilities-based local exchange or interexchange services in
10 Arizona. Comtel plans to provide facilities-based local exchange services upon Commission
11 approval of the Application and issuance of a CC&N to Comtel.
12

13 22. Comtel's resold local exchange and interexchange and facilities-based local exchange
14 services should be classified as competitive pursuant to Decision No. 64178.

15 23. Comtel will commit to abide by the quality of service standards approved by the
16 Commission for Qwest Corporation in Decision No. 59421.

17 24. Comtel will provide all customers with 911 and E911 service, where available, and will
18 coordinate with incumbent local exchange carriers and emergency service providers to provide
19 this service.
20

21 **II. THE VARTEC COMPANIES HAVE NO ASSETS IN ARIZONA**

22 In order to clarify any ambiguity which may exist in the Application, none of the VarTec
23 Companies have any assets in Arizona, and the effect of the transaction between the VarTec
24 Companies and Comtel will be to transfer all of the customers of the respective VarTec
25 Companies in Arizona to Comtel. Upon completion of the transaction described in the
26 Application, the VarTec Companies will have no customers in Arizona, and will relinquish their
27 respective CC&Ns.
28

III. PUBLICATION OF NOTICE

On May 3, 2006, the VarTec Companies filed their notice of completion of customer notification with Docket Control certifying that the VarTec Companies provided written notice of the Application to their respective customers on or about March 17, 2006, via first class mail. Comtel is in the process of publishing notice of the transaction between Comtel and the VarTec Companies in the statewide edition of the Arizona Republic. Comtel will file with Docket Control a copy of the affidavit of publication upon completion of publication.

IV. CONCLUSION

WHEREFORE, the Applicants respectfully request that the Commission issue its order as follows:

A. Granting a CC&N to Comtel to provide statewide competitive resold local exchange and access service, statewide competitive resold interexchange service, and statewide competitive facilities-based local exchange and access service;

B. Authorizing Comtel to adopt the existing tariffs on file with the Commission for VarTec Telecom, VarTec Solutions and Excel;

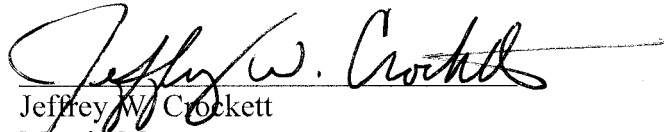
C. Canceling the CC&Ns and tariffs of VarTec Telecom, VarTec Solutions, and Excel effective upon consummation of the transaction between the VarTec Companies and Comtel as described in the Application;

D. Approving the transfer of the existing performance bonds held by VarTec Telecom, VarTec Solutions and Excel to Comtel in the amount of \$135,000, and authorizing the VarTec Companies and Comtel to cancel any performance bonds in excess of \$135,000; and

E. Granting a waiver of the Commission's slamming and cramming rules as necessary in order to permit the consummation of the transaction between the VarTec Companies and Comtel as set forth in the Application.

1 DATED this 16th day of May, 2006.

2 SNELL & WILMER

3
4 

5 Jeffrey W. Crockett
6 Marcie Montgomery
7 One Arizona Center
8 400 East Van Buren
9 Phoenix, Arizona 85004-2202
10 Attorneys for the Applicants

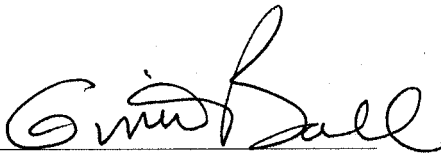
11 ORIGINAL and twenty (20) copies
12 filed with Docket Control this 16th
13 day of May, 2006.

14 COPY of the foregoing hand-delivered
15 this 16th day of May, 2006, to:

16 Lyn Farmer, Chief Administrative Law Judge
17 Hearing Division
18 ARIZONA CORPORATION COMMISSION
19 1200 West Washington Street
20 Phoenix, Arizona 85007

21 Maureen Scott, Staff Attorney
22 Legal Division
23 ARIZONA CORPORATION COMMISSION
24 1200 West Washington Street
25 Phoenix, Arizona 85007

26 Will Shand, Public Utilities Analyst Manager
27 Utilities Division
28 ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007



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EXHIBIT A

EXHIBIT A

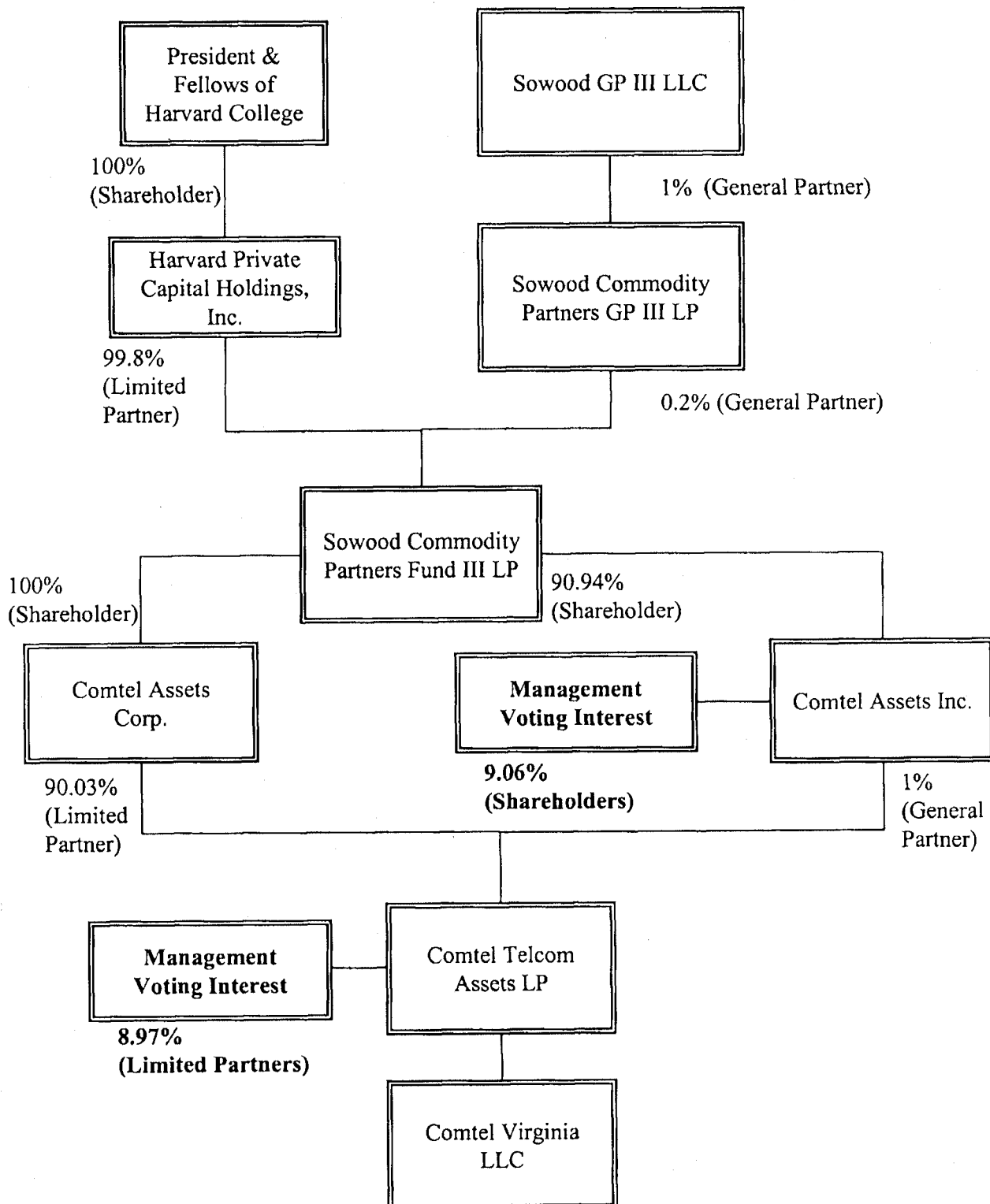


EXHIBIT B

Comtel Telcom Assets LP
Balance Sheet
September 15, 2005
(UNAUDITED)

	<u>September 15, 2005</u>
Assets	
CURRENT ASSETS	
Cash and cash equivalents	\$ 7,074,372.40
	<u>7,074,372.40</u>
NONCURRENT ASSETS	
VarTec Inc Assets	36,403,419.69
	<u>36,403,419.69</u>
TOTAL ASSETS	<u>\$ 43,477,792.09</u>
Liabilities & Partners' Capital	
OTHER CURRENT LIABILITIES	
Payroll Liabilities	\$ 5,303.40
	<u>5,303.40</u>
TOTAL LIABILITIES	<u>5,303.40</u>
PARTNERS' CAPITAL	
Comtel Assets Corp. 99%	43,106,187.65
Comtel Assets Inc. 1%	435,416.04
Net Income	(69,115.00)
	<u>43,472,488.69</u>
TOTAL LIABILITIES & PARTNERS' CAPITAL	<u>\$ 43,477,792.09</u>

See accompanying notes to financial statements.

Comtel Telcom Assets LP
Statement of Operations
For the Period July 19, 2005 through September 15, 2005
(UNAUDITED)

	<u>Jul 19 - Sep 15, 2005</u>
OPERATING EXPENSES	
Contract Labor	\$ 65,647.00
Payroll Expenses	15,191.58
	<u>80,838.58</u>
Operating Income (Loss)	<u>(80,838.58)</u>
 NON-OPERATING INCOME/(EXPENSES)	
Interest Income	12,508.58
Other Expense	(785.00)
	<u>11,723.58</u>
 NET INCOME/(LOSS)	 <u><u>\$ (69,115.00)</u></u>

See accompanying notes to financial statements.

Comtel Telcom Assets LP
Statement of Partners' Capital
For the Period July 19, 2005 through September 15, 2005
(UNAUDITED)

	<u>Jul 19 - Sep 15, 2005</u>
PARTNERS' CAPITAL AT BEGINNING OF PERIOD	
Comtel Assets Corp. 99%	0.00
Comtel Assets Inc. 1%	0.00
	<u>0.00</u>
 CAPITAL FROM PARTNERS	
Comtel Assets Corp. 99%	43,106,187.65
Comtel Assets Inc. 1%	435,416.04
	<u>43,541,603.69</u>
 ALLOCATION OF NET LOSS	
Comtel Assets Corp. 99%	(68,423.85)
Comtel Assets Inc. 1%	(691.15)
	<u>(69,115.00)</u>
 PARTNERS' CAPITAL AT END OF PERIOD	
Comtel Assets Corp. 99%	43,037,763.80
Comtel Assets Inc. 1%	434,724.89
	<u>\$ 43,472,488.69</u>

See accompanying notes to financial statements.

Notes to the Financial Statements

(1) ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) PARTNERSHIP PAYMENT AT FINAL CLOSING

Upon Final Closing, the Partnership shall pay Seller an estimated \$40.5 million in accordance with the Asset Purchase Agreement dated July 25, 2005.

(3) FUNDING ACCOUNT

Between the Early Funding Date and Final Closing, the Accounts Receivable proceeds collected by the Seller will be deposited into a Funding Account to serve as the primary funding source for the Seller to satisfy its obligations to pay Business Expenses. Funds in the Funding Account shall be an Acquired Asset and shall become the property of the Partnership upon Final Closing, and are expected to be used in part to pay the balance of the purchase price referred to in note 2, above. As of September 20, 2005, the Seller has accumulated \$12.7 million in the Funding Account.